D. Directory Assistance and Operator Services Charges.

In its Final Order, the Commission established a rate equal to the "lowest existing intercompany compensation arrangement" for directory assistance and operator service services. The provision of operators is a highly competitive service, and the Commission need not establish particular rates here because the market will do so. If, however, the Commission wishes to establish rates, it must do so based on Southwestern Bell's costs. Section 252(d)(1). There is no showing that adopting the "lowest existing intercompany compensation arrangement" meets the statutorily mandated cost standard and in fact, it does not. (Keener Affidavit, para. 4). Some existing intercompany compensation arrangements were entered into years ago and, assuming they completely covered their costs then, do not do so now. (Id.). Accordingly, the Commission should clarify its Final Order to remove the requirement of lowest intercompany compensation arrangement for operator services. It should either let the market determine such rates or conduct a hearing to determine an appropriate cost-based rate.

E. Tariff Use Limitations and Other Conditions that Apply to Southwestern Bell's Own Customers Should Apply Equally to AT&T and MCI's Customers Using Resold Southwestern Bell Service.

In its Initial Order in this case, the Commission ruled that it was appropriate to maintain the restrictions on aggregation of toll services for resale, but to presume all other restrictions do not apply unless the parties identify and ask explicitly for imposition.[31] When Southwestern Bell received this ruling, it combed through its existing tariffs to identify the use limitations and other tariff conditions that apply to its own customers that would also be appropriate to apply to an LSP's customers using Southwestern Bell's service on a resale basis. On February 11, 1997,

[31] Arbitration Order, p. 46.

Southwestern Bell identified these limitations and conditions and asked the Commission to impose them on resale customers.[32] The Commission, however, has not specifically ruled on this Request.

While Southwestern Bell can fully understand how the press of other urgent Commission business may have prevented it from reaching this Request, Southwestern Bell files for reconsideration on this issue in the event the Commission intended in its Final Order to deny Southwestern Bell's Request for Imposition of Use Limitations and Conditions of Tariffed Services.

The use limitations and conditions contained in Southwestern Bell's tariffs[33] define the very nature of the particular services being offered and are an essential element of the tariff. They simply reflect the manner in which the services have been designed, costed, priced and how they are currently being provisioned. For example, the various restrictions preventing a customer from aggregating one local service for the use of multiple end users reflect the fact that such service was priced to cover the costs caused by the expected use of a single end user, not multiple users (and potentially hundreds of them). If such multiple use was permitted, a price based on individual use would not be sustainable and would have to be raised. Moreover, the absence of such limitations and conditions would discourage carriers from coming forward with new services

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[32] See, Southwestern Bell Telephone Company's Request for Imposition of Use Limitations and Conditions of Tariffed Services, Case Nos. TO-97-40 and TO-97-67, filed February 11, 1997.

[33] These use limitations and tariff terms and conditions - - along with an explanation of the item and the rationale for imposing it equally on resale customers - - are set out in a 16 page attachment to Southwestern Bell's Request for Imposition of Use Limitations and Conditions of Tariffed Services. This Request and its attachment are hereby incorporated into this Motion by reference.

because of concerns that aggregation will be permitted which will make them unable to cover the costs of providing the services.

The FTA only requires resale of existing services. Section 251(c)(4)(A) states that an incumbent LEC has the duty "to offer at wholesale rates any telecommunications service that the carrier provides at retail to subscribers who are not telecommunications carriers" (emphasis supplied). Permitting an LSP to purchase Southwestern Bell's retail services but ignore the essential tariff conditions defining those services impermissibly expands Section 251(c)(4)(A) to additionally require the resale of services the incumbent LEC does not even offer. As the 8th Circuit made clear in its order vacating portions of the FCC's Interconnection Order, an incumbent LEC is not required to provide superior forms of interconnection.[34]

The FTA permits the Commission to approve any reasonable limitation or restriction on resale. The duty under Section 251(c)(4)(B) only prohibits the imposition of "unreasonable or discriminatory conditions or limitations on, the resale of such telecommunications service." Here, all of the tariff limitations and conditions have already been reviewed and approved by the Commission. Maintaining these limitations and conditions will not be discriminatory or have any anticompetitive consequences because they apply equally to all carriers (i.e., to Southwestern Bell and all carriers reselling its services). Having already made the reasonableness determination, the Commission should find that all existing terms and conditions contained in Southwestern Bell's approved tariffs are equally applicable to LSP end users. A failure to apply the same terms and conditions to AT&T and MCI and their customers as to apply to Southwestern Bell and its customers would be discriminatory and violative of the FTA.

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[34]Iowa Utilities Board v. FCC, 1997 U.S. App. LEXIS 15, 398 (8th Cir. 1997).

CONCLUSION

As noted previously, the issues presented to the Commission are clearly complex and difficult. Southwestern Bell appreciates the time and effort which the Commission has expended to resolve these issues. However, it is absolutely critical that the Commission's Final Order be fair, balanced and lawful. At this point, it is not.[35]

Southwestern Bell respectfully requests the Commission to reconsider and substantially revise its determinations on the rates and operational parameters as described above. The Commission should schedule an evidentiary hearing at which time all the parties could address the Staff proposal and present their own proposed prices. Failing that, the Commission should (a) modify its Final Order and adopt an actual cost standard or, alternatively, eliminate the unwarranted TELRIC adjustments, (b) revise the resale discount to reflect a service by service approach, or at least eliminate the methodological errors in its aggregate discount and (c) clarify

[35]The Commission determined that the Initial Order remains in effect to the extent not inconsistent with the Final Order. (Final Order, p. 5). Southwestern Bell has previously outlined some of its problems with the Initial Order and hereby incorporates by reference the matters raised in its Motion For Clarification, Modification and Rehearing of Arbitration Order, Case Nos. TO-97-40 and TO-97-67, filed December 20, 1996, and the appeal of that Initial Order.

its Final Order as reflected in Section V. To do otherwise will cause significant imbalance in the competitive market and inflict irreparable harm on Southwestern Bell and its customers.

Respectfully submitted,

SOUTHWESTERN BELL TELEPHONE COMPANY

By______________________________

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AFFIDAVITS IN SUPPORT OF

SOUTHWESTERN BELL TELEPHONE COMPANY'S

MOTION FOR CLARIFICATION, MODIFICATION AND APPLICATION

FOR REHEARING OF FINAL ARBITRATION AWARD

INDEX

INDEX

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

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FCC MAIL ROOM

In the Matter of AT&T Communications of the Southwest, Inc.'s Petition for Arbitration pursuant to Section 252(b) of the Telecommunications Act of 1996 to Establish an Interconnection Agreement with Southwestern Bell Telephone Company	)	Case No. TO-97-40
Petition of MCI Telecommunications Corporation and its Affiliates, Including MCImetro Access Transmission Services, Inc. for Arbitration and Mediation Under the Federal Telecommunications Act of 1996 of Unresolved Interconnection Issues with Southwestern Bell Telephone Company	)	Case No. TO-97-67

AFFIDAVIT OF WILLIAM C. BAILEY

I, William C. Bailey, of lawful age, being duly sworn, depose and state:

1. My name is William C. Bailey. I am presently Executive Director-Regulatory and Industry Relations for Southwestern Bell Telephone Company ("SWBT"). My qualifications and work history are included in my prefiled direct testimony in the AT&T/MCI arbitrations, Missouri Public Service Commission Case Nos. TO-97-40 and TO-97-67.

2. I have been involved in regulatory proceedings in Missouri since 1976, when I joined the cost studies organization at SWBT's general headquarters. In that department, I was responsible for the completion of cost studies and the development of cost methodologies for various products and services of SWBT. On February 1, 1986, I joined the Missouri organization, and since that time I have had the responsibility for reviewing cost studies and presenting rates based on those cost studies.

3. The rates established for unbundled network elements in the Final Arbitration Order will have a significant negative effect on the incentive and ability of SWBT to continue to invest in the network in Missouri. The proposed rates do not cover SWBT's embedded costs which reflect the actual cost of operating the network as it exists today. Nor do the rates cover SWBT's forward-looking TELRIC costs which are themselves lower than SWBT's actual or embedded costs. A company which cannot cover its costs of doing business, either actual or forward-looking, does not have the incentive to continue to invest to maintain a modern and high quality network.

4. The financial impact on SWBT can be demonstrated by analyzing the results on SWBT if it provided only unbundled network elements and did not participate in the retail market. Schedule 1 to this affidavit demonstrates that impact for SWBT in Missouri, based on 1996 actual costs. The analysis assumes that all retail costs as determined by the Commission (which SWBT believes are themselves overstated) are eliminated along with all profit. The analysis then determines what revenues would be available to SWBT if competitors purchased unbundled network elements from SWBT, at the rates established in the final Arbitration Order, to serve all of SWBT's current customers. While earning <u>no</u> profit, SWBT would fail to recover approximately $335 million of actual annual costs, or an average of $11.79 per customer access line per month.

5. The financial implications can also be demonstrated by comparing existing rates that are in effect for most of SWBT's customers to the rates which reflects the wholesale discount ordered by the Commission (19.2%) and the cumulative charges AT&T or MCI would pay by

combining unbundled network elements to reconstruct SWBT's service. The results of this analysis are shown on Schedule 2 attached to this affidavit. For customers in the metropolitan area who purchase some discretionary features AT&T or MCI can "rebundle" SWBT's unbundled network elements to create a service which is priced dramatically below both SWBT's current rates and the wholesale discount rate set by the Commission. For example, a business customer in Festus who purchases MCA service and SWBT's Works package currently pays SWBT $121.10 in monthly revenues. Less the wholesale discount, it would cost AT&T $97.77 to resell our service. AT&T could rebundle our service for $30.23 per month, or a 75% discount from our retail rate.

6. The final arbitration order makes another egregious error. The direct TELRIC costs which are used as a basis for the final rates are significantly different from the direct TELRIC costs proposed by SWB. However, the common cost factor in the final costs is the same as that proposed by SWB originally. It is inconceivable that a significant amount of costs of the company cannot be considered as a direct cost and can also be ignored as a common cost. For example, if Staff assumes that the fill factors used by SWB in its TELRIC are too high and Staff utilizes lower factors in its TELRIC, the effect should be that costs are transferred from direct TELRIC costs to common costs and the common cost factor should be increased. The appropriate common cost factor that should be used with the Staff's TELRIC would show more than a three-fold increase over the common cost factor prepared originally by SWB.

Further, affiant sayeth not,

William C. Bailey
William C. Bailey

STATE OF MISSOURI)
) SS
CITY OF ST. LOUIS)

Subscribed and sworn to before me this 19 day of August, 1997.

Maryann Purcell
Notary Public

MARYANN PURCELL
Notary Public - Notary Seal
STATE OF MISSOURI
ST. LOUIS COUNTY
MY COMMISSION EXP JAN. 5,2000

Financial Implications

Following is a calculation of the amount of unrecovered cost the company will experience as a result of the Commission's final arbitration order in the AT&T/MCI arbitration case.

The net costs of the company before arbitration are determined by subtracting the total annual profit and the cost of doing retail business (as determined from the final Arbitration Order's wholesale discount findings) from total annual revenues.

The total post-arbitration revenue is calculated by assuming that all the company's retail customers are lost to competitors which provide service by purchasing unbundled network elements from SWBT.

The total post-arbitration revenues are then compared to the net costs that the company will continue to experience. This comparison shows that approximately \$335 million per year of cost or \$11.79 per customer would go unrecovered. SWBT would earn <u>no</u> profit but would instead lose \$11.79 per customer per month.

FINANCIAL IMPLICATIONS
COMPARISON OF REVENUES/RATES—CURRENT VERSUS MISSOURI ARBITRATION RATES

1. Prior to Order (1996)

	Missouri	Per Line
Lines	$ 2,368,998	
Total Revenues (1)	1,422,823,435	$50.05
Profit (2)	(163,353,021)	(5.75)
Retail Costs (3)	(237,815,759)	(8.37)
Net Costs	$1,021,654,655	$35.94

2. Assuming Missouri Arbitration Rates (Unbundled Elements)

Loop	$ 479,864,235	$16.88
Switch Port	53,444,595	1.88
Switch ($.002240 x 52.3B MOU)	117,168,857	4.12
Tandem Switching ($.00151 x 7.6B MOU)	11,486,148	0.40
Cross-Connect	8,812,673	0.31
Transport (.00035 x 44.5BMOU)	15,587,430	0.55
Estimated Revenue	$ 686,363,937	$24.14

3. Difference (Net Costs not recovered) | ($335,290,718) | ($11.79)

(1) 1996 MR Report (booked revenue)-includes all regulated revenues, e.g., local, vertical services, toll, interstate and intrastate switched, and special access.

(2) Profits equal revenues less expenses, taxes, and interest expense.

(3) Retail costs represent booked customer services, marketing, and corporate related expenses attributable to retail operations.

SCHEDULE 2

SWB Retail vs Rebundled MCA Local Service Rate
Comparison With The WORKS

BUSINESS

	D Webster Groves Rate (Discount)	B Chesterfield Rate (Discount)	B Festus Rate (Discount)
SWB Business	$66.45	$76.35	$121.10
Resale Rate	$53.69 (19.20%)	$61.69 (19.2%)	$ 97.85 (19.2%)
Rebundled Rate	$21.10 (68.2%)	$30.23 (60.4%)	$ 30.23 (75%)

RESIDENCE

SWB Residence	$30.80	$41.40	$61.05
Resale Rate	$24.89 (19.20%)	$33.45 (19.20%)	$49.33 (19.2%)
Rebundled Rate	$21.10 (31.57)	$30.23 (27%)	$30.23 (50.5%)

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BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the matter of AT&T Communications Of the Southwest, Inc.'s Petition for Arbitration pursuant to Section 252(b) of the Telecommunications Act of 1996 to Establish an Interconnection Agreement with Southwestern Bell Telephone Company	)	Case No. TO-97-40
Petition of MCI Telecommunications Corporation and its Affiliates, Including MCImetro Access Transmission Services, Inc. for Arbitration and Mediation Under the Federal Telecommunications Act of 1996 of Unresolved Interconnection Issues With Southwestern Bell Telephone Company	)	Case No. TO-97-67

AFFIDAVIT OF BARBARA A. SMITH

I, Barbara A. Smith, of lawful age, being duly sworn, depose and state:

1. My name is Barbara A. Smith. I am presently Area Manager-Product Cost Development, Analysis and Regulatory for Southwestern Bell Telephone Company ("SWBT"). My qualifications and work history are included in my pre-filed direct testimony in the AT&T/MCI arbitration. Missouri Public Service Commission Case Nos. TO-97-40 and TO-97-67.

2. Section 251 of the Federal Telecommunications Act of 1996 requires incumbent Local Exchange Carriers (LECs) to offer for resale at wholesale rates any telecommunications service the carrier provides at retail to subscribers who are not telecommunications carriers. Section 251(d) (3) states, "... a state commission shall determine wholesale rates on the basis of retail rates charged to subscribers for the telecommunications service requested, excluding the portion thereof attributable to any marketing, billing, collection, and other costs that will be avoided by the exchange carrier." SWBT filed with the Missouri

Public Service Commission in a series of cost studies showing the costs the Company expected to avoid when offering services for resale. SWBT also proposed wholesale discounts for local and intraLATA toll services subject to resale.

3. After review of SWBT avoided cost studies and studies provided by AT&T, MCI and others, the Commission adopted a methodology for computing avoided costs and wholesale discounts applicable to SWBT retail rates. The Commission then ordered *two discounts* based on this methodology. The first discount of 19.2% applies to all resale services other than Operator Services, such as local residence and business telephone service, intraLATA message telephone service (MTS) and other miscellaneous services. The second discount of 13.9% applies to Operator Services.

4. In addition to concerns regarding the excessive wholesale discounts ordered by the Commission, SWBT sought the adoption of *service-by-service wholesale discounts.* (Schedule 1.) Wholesale discounts should vary among individual services to accurately reflect the costs the Company expects to avoid. Avoided costs differ among services due to differences in levels of customer servicing, selling, collections and other activities. In addition, SWBT maintains section 252 (d) (3) of the Act requires wholesale discounts to be determined on a service-by-service basis.

5. SWBT's Service-By-Service Resale Avoided Cost Analysis computes avoided costs and wholesale discounts for twenty five service groups. The cost study is comprehensive, reflecting all avoidable costs for the individual service groups. Parties to the arbitration, including the Commission staff, have expressed concern that SWBT's financial accounting does not sufficiently differentiate the costs of individual service groups, and therefore, the aggregate wholesale discounts adopted by the Commission which are based on financial accounting data are necessary. However, SWBT has clearly shown through its study documentation and the

testimony of its witness that the service-by-service avoided cost study is based on cost and operational data which can be verified to be accurate and appropriate. SWBT demonstrated to Staff that it could balance back to the total account data for the accounts included in the service by service avoided cost analysis.

6. The most important issue involved in calculating the discount is the treatment of operator services expenses, which are contained in two accounts, account 6621 – Call Completion and account 6622 – Number Services (Directory Assistance). The Commission has adopted two discounts; one for operator services and one for all other services. However, the calculations for each discount are incorrect mainly because of the treatment of operator services expenses.

7. Operator Services include services in which an operator assists in the completion or handling of a telephone call. A live operator may be involved in the call, or the call handling may be fully or partially automated. Also included among Operator Services are directory assistance services for which separate charges apply. Some resellers of SWBT retail services plan to provide Operator Services rather than use those of SWBT. The separate 13.9% wholesale discount applies to resellers who do not use their own services and instead sell SWBT services.

8. The discount of 19.2% supposedly represents the discount for all services except operator services, yet the methodology for calculating the 19.2% discount is no different than the 20.32% originally ordered as an aggregate including operator services, except for a decrease in the product management account, Account 6611, which has nothing to do with the operator services issue. Section 252 (d) (3) requires that the discount be based on the avoided costs for the services to be resold, yet this Commision has included (see Figure 1) the avoided costs for operator services (accounts 6621 and 6622) in the numerator of the calculation even though this discount is supposed to represent all services except operator services. The

calculation of the operator services discount then <u>excludes</u> (see Figure 2) the avoided costs for operator services. This defies logic and flies in the face of common sense.

9. The following example demonstrates the correct method of calculating the avoided cost resale discount and the errors in the Commission's methodology:

Assume SWBT only sells two services: Call Waiting (assume revenues of 100 and avoided costs of \$20) and Operator Services (assume revenues of 100 and avoided costs of \$35). The avoided cost discounts for each would be calculated as follows:

$$\text{Discount for Call Waiting} = \frac{\text{Avoided Costs Call Waiting}}{\text{Revenues for Call Waiting}} = \frac{\$20}{\$100} = 20\%$$

$$\text{Discount for Operator Services} = \frac{\text{Avoided Costs for Operator Services}}{\text{Revenues for Operator Services}} = \frac{\$35}{\$100} = 35\%$$

The Commission calculated the discounts in the following manner:

$$\text{Discount for Call Waiting} = \frac{\text{Avoided Costs for Call Waiting} + \text{Avoided Costs for Operator Services}}{\text{Revenues for Call Waiting} + \text{Revenues for Operator Services}} = \frac{\$55}{\$200} = 28\%$$

$$\text{Discount for Operator Services} = \frac{\text{Avoided Cost for Call Waiting}}{\text{Revenues for Call Waiting} + \text{Revenues for Operator Services}} = \frac{\$20}{\$200} = 10\%$$

The obvious error in the Commission's calculation is the inclusion of the operator service avoided costs in the calculation of the call waiting discount and the exclusion of the operator services avoided costs in the calculation of the operator services discount.

10. The methodology for computing avoided costs and wholesale discounts adopted by the Commission has several other errors which lead to excessive wholesale discounts. The 19.2% and 13.9% discounts on retail rates are substantially greater than the costs which SWBT is able to avoid when a reseller assumes marketing, billing, collection and other activities

currently undertaken by SWBT for retail services. The 19.2% wholesale discount for services other than Operator Services is too high by almost *nine percentage points*. SWBT's avoided costs for services other than Operator Services are 10.04% of retail rates, rather than 19.2%. (SWBT calculated the 10.04% aggregate number from its correction in Figure 1 which is different from the Staff's calculation of 9.4%). Avoided costs for Operator Services are 3.15%, instead of 13.9%.

11. The revenues expected to be lost from excessive wholesale discounts will penalize SWBT, its retail customers and owners. At the same time, excessive wholesale discounts discourage competitors from constructing their own local facilities. Instead, they will obtain facilities and services from SWBT at discounts which exceed the costs avoided by SWBT. In the end, competitors will be given an unfair advantage.

12. If the Commission continues to reject SWBT's service-by-service avoided costs and wholesale discounts, the Company urges that the 13.9% wholesale discount for Operator Services and 19.2% wholesale discount for all other resale services be modified to correct errors which cause the discounts to be excessive.

13. Consider the 19.2% wholesale discount for services other than Operator Services. The Commission adopted the avoided cost and wholesale discount proposed by its staff which is shown in Figure 1.

Figure 1

Staff Methodology

Calculation Detail by Account of Development of Wholesale Discount
1996 ARMIS Data ($000)

All Services Except Operator Services

Costs

	Accounts	Account Name	Total Missouri Regulated	% Avoided	SWBT Avoided	SWBT Corrected for Op Serv (1)	SWBT Corrected for all accounts (2)
Direct Costs	6611	Product Management	$ 7,206	50.00%	$ 3,603	$ 3,603	$ -
	6612	Sales	$ 22,214	90.00%	$ 19,993	$ 19,993	$ 17,712
	6613	Product Advertising	$ 11,022	90.00%	$ 9,920	$ 9,920	$ -
	6621	Call Completion Services	$ 11,181	100.00%	$ 11,181	$ -	$ -
	6622	Number Services	$ 34,145	100.00%	$ 34,145	$ -	$ -
	6623	Customer Services	$ 95,206	90.00%	$ 85,685	$ 85,685	$ 71,405
Indirect Costs	5301	Uncollectible Revenue	$ 16,669	15.68%	$ 2,613	$ 1,893	$ 5,538
	6112 - 6116		$ 981	0.00%	$ -	$ -	
	6121 - 6124		$ (31,437)	15.68%	$ (4,896)	$ (3,546)	$ -
	6211 - 6232	Central Office	$ 78,213	0.00%	$ -	$ -	
	6311 - 6362	Information Origination / Termination	$ 24,436	0.00%	$ -	$ -	
	6411 - 6441	Cable & Wire Facilities	$ 123,287	0.00%	$ -	$ -	
	6511 - 6565	Plant Non-Specific Operations	$ 510,721	0.00%	$ -	$ -	
	6711 - 6728	Corporate Operations	$ 145,639	15.67%	$ 22,826	$ 16,536	$ -
		Total	$ 1,049,483		$ 185,070	$ 134,084	$ 94,655

Revenues

	Account Name	Total Missouri Regulated	Percent Included	SWBT Avoided	SWBT Corrected for Op Serv (1)	SWBT Corrected for all accounts (2)
	Local Service	$ 807,299	100.00%	$ 807,299	$ 807,299	$ 786,524
	Toll Network Service	$ 156,649	100.00%	$ 156,649	$ 156,649	$ 156,649
	Network Access Service	$ 444,248	0.00%	$ -	$ -	
	Miscellaneous	$ 172,704	0.00%	$ -	$ -	
	Total	$ 1,580,900		$ 963,948	$ 963,948	$ 943,173
Resale Percentage Discount on Revenue				19.20%	13.91%	10.04%

(1) *Excludes accounts 6621 - Call Completon and account 6622- Number Services*
(2) Excludes accounts 6621, 6622, 6611, 6613, because these expenses are not avoidable. Removed operator services revenues

14. The most important error in the staff wholesale discount calculation relates to operator services expenses. Operator services expenses are contained in two SWBT financial accounts - Account 6621 - Call Completion Services expenses and Account 6622 - Number Services expenses. The descriptions of these accounts are provided in the FCC Uniform System of Accounts - Part 32 and SWBT accounting manual. As seen in Figure 1, the staff calculation treats all expenses in these two accounts as avoided costs. This presumes, first, all resellers will

provide operator services, and secondly, all expenses in Accounts 6621 and 6622 are indeed avoidable costs of all services other than operator services. Given the magnitude of these two accounts, this is an important issue. If none of the costs in these two accounts are avoidable, the 19.2% wholesale discount decreases to 13.9%.

15. In 1996, expenses in Account 6621 - Call Completion Services totaled $11.2 million in Missouri. Of this amount, approximately **___** million is attributable to operator services provided for public telephone service. This is for activities such as placing collect calls, third party billed calls and others from coin telephones. Public telephone service is not for resale, and the costs attributable to this service are not avoidable. They should not be included in the calculation of avoided costs.

16. Secondly, **___** million of Account 6621 expenses are due to operator services such as handling collect calls, third party billing, hotel / motel calls and others for which an Operator Services rate applies. These costs are avoidable; however, they are attributable to Operator Services and should not be included in the wholesale discount calculation for services other than Operator Services. If a reseller provides operator services, SWBT will avoid these costs, but it also will lose the associated Operator Service revenues.

17. The remaining **___** million in Account 6621 is attributable to operator assistance supporting local telephone services, intraLATA MTS and other services. These expenses are avoidable if SWBT ceases to provide all operator services. SWBT expects some resellers to rely on its operator services supporting local and toll services.

18. Turning to Account 6622 - Number Services, 1996 expenses totaled $34.1 million. This account contains two types of expenses. The first is expenses associated with providing Directory Assistance (DA). DA expenses were approximately $23.2 million of the account total. Of the $23.2 million, **___** million of expenses are attributable to DA provided in support of local, toll and public telephone services. This would be for "free" DA

calls: i.e., calls for which there is not separate DA charge. The remaining **____** million of expenses is attributable to the DA service for which separate charges apply. In computing the 19.2% wholesale discount for services other than Operator Services, the staff should exclude the **____** million attributable to DA service. If a reseller provides DA, SWBT will avoid these expenses, but it also will lose the associated DA revenues. More importantly, these costs are not attributable to local and toll services. In addition, only a portion of the remaining $5.0 million of DA expenses associated with local and toll services are avoidable, but only for operator services, not all other services. SWBT expects to continue to provide DA service for some resellers. Also, an unidentified portion of the $5.0 million is attributable to public telephone service which is not for resell.

19. The second type of expense in Account 6622 is for directory white pages production. This expense totals **____** million and is not avoidable in its entirety. SWBT must continue to maintain its directory databases and produce telephone directories. Both AT&T and MCI have requested that SWBT provide White Pages as a separate service.

20. The last two columns in Figure 1 makes corrections to the operator services and other accounts to adjust for the amounts in each account that are not avoidable. These other unavoidable operator services expenses which should not be included in accounts 6621 and 6622 are:

- **___** million of Account 6621 (Paragraph 15) for operator services provided as part of public telephone services not for resale.
- **___** million of Account 6621 (Paragraph 16) for expenses attributable to Operator Services. These expenses are avoidable when a reseller provides operator services, but they are not attributable to local and toll services.
- **___** million of Account 6622 for expenses attributable to DA service.